MEDPAC Medicare Payment Advisory Commission

MEETING BRIEF

April 12-13, 2001

Assessing payment for outpatient hospitals care in rural areas

ISSUE: Do rural hospitals face special circumstances that make the new outpatient prospective payment system (PPS) inappropriate for them? Rural hospitals are concerned that the new payment system will not adequately cover their costs to provide care because the new PPS uses average (in this case, median) costs to set payment rates for all hospitals. Special circumstances may make it difficult for rural hospitals to keep their costs below the PPS rates. The BBRA requires MedPAC to study the appropriateness of the outpatient PPS for various types of rural hospitals (rural referral centers, Medicare-dependent small rural hospitals, sole community hospitals, other hospitals with 100 or fewer beds, and rural health clinics). Our findings will be included as a chapter in the June 2001 report.

KEY POINTS: Most rural hospitals are paid under the outpatient PPS. However, all rural hospitals with 100 or fewer beds are at least partially protected from financial losses under the system through 2003.

The available evidence suggests that rural hospitals may face unique circumstances and special policies may be warranted. Rural hospitals are characterized by:

- a greater dependence on Medicare and on outpatient services as sources of revenue, which increases their exposure to the financial risks of prospective payment;
- limited administrative capacity and financial reserves;
- a lower-intensity service mix;
- higher unit costs; and
- performance of a unique social role.

In the short term, the hold-harmless provision provides additional payments to rural hospitals that need them. In the longer term, other policies may be warranted. We do not recommend specific policy changes at this time, however, due to the lack of experience under the outpatient PPS and questions concerning the age and reliability of available outpatient cost and claims data. Policy options for the future include maintaining the current system, establishing a separate conversion factor, implementing a low volume adjustment, extending the current hold-harmless provision, and returning to cost-based payment. Each option has both advantages and disadvantages. They should be reconsidered once experience under the PPS has been evaluated and better data become available.

ACTION: The Commissioners should consider the draft recommendation presented and provide feedback on the tone and content of the draft chapter.

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